



Strengthening the Antipoverty Effects of Welfare Service Programs in the People's Republic of China

Background

Poverty in the People's Republic of China (PRC), according to most studies, is commonly viewed as an exclusive rural phenomenon, more concentrated in remote areas and minority regions in western PRC, and more prevalent among girls, women, the elderly, and those who are unable to work. The recent poverty assessment by the World Bank¹ found that (i) the number of poor in the PRC remains high; (ii) vulnerability to poverty is widespread, especially in the rural areas, and the number of those vulnerable to the risk of falling into poverty is about twice as high as the number of poor in a given year; (iii) the remaining poor are harder to reach as they are more dispersed; (iv) while economic growth has been critical for poverty reduction, the responsiveness of poverty to economic growth has decreased; and (v) income inequality has risen significantly because of a widening rural–urban gap and increasing inequality in both rural and urban areas.

The country has had tremendous success in recent years in eliminating extreme forms of chronic poverty. The government has provided several initiatives since 2003 to accelerate growth by broadening its agenda on poverty reduction, social protection, and human development. These initiatives include (i) a training program to support the transfer of rural surplus labor, (ii) elimination of agricultural taxes, (iii) support for farm incomes, (iv) nationwide rural social assistance system, (v) rural health insurance scheme, which is the National

Cooperative Medical Scheme, (vi) urban residents' basic medical insurance, (vii) medical assistance scheme in rural and urban areas, and (viii) compulsory education finance reform.²

Progress on Social Protection Programs

Most countries in the developing world do not have effective mechanisms in place for softening the impact of adverse shocks on the poor (Lustig 2001).³ And developing countries are obviously vulnerable to different types of aggregate shocks, including domestic shocks, such as those resulting from poor macroeconomic policies, political instability or conflict, and exogenous shocks, such as those related to financial contagion, terms of trade, natural disasters, and climate change.⁴ Because of this, development institutions are placing importance on ensuring that partner agencies adopt social protection to improve the well-being of the poor. Social protection that consists of policy intervention is needed to prevent sharp downfalls in income or in consumption.

The PRC system of social protection for vulnerable peoples has significantly changed over the last 25 years. The government responded to the negative consequences of the economic and social reform in 1990, intending to address the problems through a better

ADB supports provision of child and family protection services and cash transfers to families for sustainable livelihood.

social protection system. In 2007, the government's social expenditure was increased and placed considerable attention to pension, health care, housing, and other forms of social assistance.

The country has made considerable progress in providing assistance through *Di Bao*, or the minimum living standards guarantee scheme, which has been greatly expanded. But despite the PRC Government's enviable accomplishment in providing its constituents with social assistance, issues of the *Di Bao* relating to implementation, benefit amounts, sustainability, and coverage remain important challenges.

Strengthening social assistance is increasingly recognized as an urgent task in developing countries, such as the PRC, to address the pressing need for equitable development directed at the poor through expanding public services, improving social management, and promoting social equity and justice. In 2003, the PRC Government initiated efforts to promote the all-round development of both urban and rural areas to enhance the people's economic, social, and cultural rights. The program emphasized employment as the people's basic livelihood. The government also increased financial inputs for legislation and law enforcement in labor security. Also, in 2003, the central government increased spending significantly to ensure that basic living allowances for laid-off employees from state-owned enterprises and pensions for retired employees from enterprises were paid on time and in full. It also guaranteed the issuance of basic living allowances to laid-off employees from state-owned enterprises, granted access to unemployment insurance, and implemented the minimum standard of living scheme for urban residents.

The World Bank⁵ report showed that, by the end of 2007, all 31 provinces in the PRC had established the rural *Di Bao*, and the number of beneficiaries had climbed to 34.5 million. Between 2005 and 2007, the number of *Di Bao* beneficiaries increased more than four times. With this expansion, the rural *Di Bao* was considered the single most important social assistance program in rural areas. The government showed impressive commitment in providing programs that address vulnerability, such as medical assistance for the poor, a rural medical cooperative scheme, free basic education, and minimum income support in urban and rural areas (*Di Bao*).⁶

Strengthening the Antipoverty Effects of Social Interventions

The government is showing a deeper commitment to assist its constituents through the *Di Bao* and medical financial assistance, but the rapid spread of the schemes throughout the countryside brought with it some challenges in various aspects, including financing,

benefit setting, and targeting.⁷ The government still needs to strengthen its efforts in providing sound legislation that addresses social protection. As a response to the demand for assistance in the PRC, the Asian Development Bank (ADB) provided a technical assistance (TA) in 2007 to support key policy reforms and/or develop new mechanisms to better implement existing policies, as well as build capacity to support policy directions under the 11th Five-Year Plan for Economic and Social Development, 2006–2010. The TA will produce a series of recommendations on policy reform, supportive legislation, institutional change, and effective implementation mechanisms for consideration by the government, along with capacity building in priority areas.⁸

To help the government implement its social assistance program, ADB provided a TA in 2009, placing emphasis on inclusive growth and balanced development.⁹ It responds to goals set in the 12th Year Plan on supporting the rebalancing of growth strategy and mitigating the adverse impacts of the economic slowdown. The TA project builds on the findings and partnerships established during the implementation of the Facility for Policy Reform and Poverty Reduction project and the Facility for Policy Reform and Capacity Building project.¹⁰ It will also share the findings and issues with the Rural Pension Reform and Development project.

This project is designed to address some of the major policy issues and provide recommendations to the Ministry of Civil Affairs, which is responsible for overall implementation of the social assistance. The Ministry of Civil Affairs has focused on promoting the program, implementing guidelines, and conducting field investigations on the performance of local programs. The major policy issues identified for further research and adjustment are grouped as follows: (i) sustainable financing and institutional arrangements, (ii) identification and targeting of the poor, and (iii) social inclusion. With increased coverage, the social assistance needs strong policy refinement. In fact, it is necessary to review PRC's overall social assistance system to build a coherent social welfare program for the country.

This TA project will improve issues relating to the number of recipients and targeting methods of any future social assistance. Investigation on and policy formulation of specific eligibility criteria for receiving assistance are important elements in any development activity. The TA project also considers the need for appropriate policies on performance assessment in any intervention. The following important activities need to be undertaken: (i) review existing policies and strategies, (ii) identify international best practices options, (iii) select counties and cities for conducting action research and survey,

(iv) conduct inception workshops to discuss anticipated outputs, (v) undertake case studies in selected counties and cities, (vi) conduct survey on child poverty, (vii) organize workshops, (viii) conduct institutional assessment of the IAs, and (ix) hold a final conference on

findings and recommendations. The facility TA provides an avenue for ADB to respond on time to emerging issues affecting social assistance in PRC society. The TA project also strengthens PRC's partnership with numerous partners in development activities.

Endnotes

- ¹ World Bank. 2009. From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. *An assessment of poverty and inequality in China*. Available: http://siteresources.worldbank.org/CHINAEXTN/Resources/318949-1239096143906/China_PA_Report_March_2009_eng.pdf?bcsi_scan_B90AE85AF6AB15C6=0&bcsi_scan_filename=China_PA_Report_March_2009_eng.pdf
- ² Endnote 1.
- ³ Lustig, Nora. 2001. *Shielding the Poor: Social Protection in Developing World*. United States: Inter-American Development Bank.
- ⁴ Mendoza, Ronald U. 2009. Aggregate Shocks, Poor Households and Children: Transmission Channels and Policy Responses. *UNICEF Social Policy Working Paper*. UNICEF. Available: www.unicef.org/policyanalysis/files/Postscript_Formatted_AGGREGATE_SHOCKS_AND_CHILDREN_3.04.09.pdf
- ⁵ Endnote 1.
- ⁶ Dollar, David. 2009. Remarkable Progress, Remaining Vulnerability among China's Poor. Available: <http://blogs.worldbank.org/remarkable-progress-remaining-vulnerability-among-chinas-poor>
- ⁷ ADB. 2010. Focused Synopses for Selected Subproject Reports on Policy Reform and Poverty Reduction. Consultant's Report (TA 4933-PRC).
- ⁸ ADB. 2007. *Technical Assistance to the People's Republic of China for Facility for Policy Reform and Poverty Reduction*. Manila (TA 4933-PRC).
- ⁹ ADB. 2009. *Technical Assistance to the People's Republic of China for Strengthening the Antipoverty Effects of Social Assistance*. Manila (TA 7438-PRC).
- ¹⁰ ADB. 2009. *Technical Assistance to the People's Republic of China for Facility for Policy Reform and Capacity Building III*. Manila (TA 7313-PRC).

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